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SUBJECT: RESTRUCTURING TURKEY'S INDUSTRY--A WORK IN PROGRESS

11. (SBU) Summary: Turkey's Undersecretary for Defense Industries Murad Bayar told participants in a defense technology conference on June 24 that the Turkish defense industry should be restructured. He encouraged Turkish firms to collaborate on both design and production and to develop connections with universities. The conference appeared to be designed to help Bayar and the Undersecretariat for Defense Industry (SSM) develop a new defense industry policy. Still a work in progress, we expect to hear more about this policy next month. End summary.

12. (U) During a two-day conference on defense technologies held at the Middle East Technical University (METU) in Ankara June 24-25, SSM Undersecretary Murad Bayar participated in a panel on the restructuring of the Turkish defense industry. The 5 panelists included managers from the Technical and Scientific Research Council of Turkey (TUBITAK), Roketsan Missile Industries Inc., Aselsan Electronic Industries Inc., FNSS Defense Systems, and Havelsan Aerospace Electronic and Trade Inc.

13. (U) In his remarks, Bayar criticized the current situation in Turkey by saying that there have been serious implementation problems in the Turkish defense industry due, in part, to the fact that there were ongoing disputes over identifying requirements. Bayar believes that technology transfer, which Turkey has been pursuing for the last 20 years, was not efficient because direct purchase of materials would be cheaper and because the sector was too fragmented. SSM has a procurement fund of \$ 3 billion that could easily be used for direct purchases from abroad. However, despite the higher costs resulting from Turkey's previous involvement in joint production, this process has provided Turkey with the opportunity of training personnel in the defense industry.

14. (U) Mentioning the actors in the industry as users, the procurement authority (SSM), industry (commercial companies) and researcher institutions (universities), Bayar stressed that coordination between roles was of vital importance as well as using resources as efficiently as possible. Bayar believed that restructuring the defense industry in Turkey should start with system integration for rockets and missiles. Overall, he thought the defense sector could be consolidated into 3-4 companies.

15. (U) According to Bayar, market share of domestic industry was only 20% of Turkey's military procurements. Therefore, the first goal should be production for domestic use. Apparently contradicting his earlier statement, he said that a single company should not undertake the whole production process. Turkish companies should coordinate with each other in the design and production processes. Bayar further indicated that consideration should be given to direct cooperation with universities. Bayar completed his comments by saying that he was optimistic about the success of the Turkish defense industry considering the size of the market, skilled human resources and current technologies infrastructure.

16. (SBU) Comment: The impression left by the conference was that it had been organized to help Bayar and SSM formulate a new government policy on the defense industry. Elsewhere, Bayar has stated that he intended to change SSM's procurement model to better support the development of indigenous defense companies. He had earlier told the Ambassador that the new policy would take some time to formulate and suggested he would not be ready to discuss it until August. We will follow up then. End Comment.

Deutsch